



WOODFIN SUITE HOTELS



June 15, 2004

Steve Lynch, Associate Planner
City of Sunnyvale Planning Division
Department of Community Development
456 W. Olive Avenue
Sunnyvale, CA 94088

RE: Woodfin Suite Hotel, 635 El Camino Real
GPA, Rezoning, SDP and Tentative Map application

Dear Steve:

As you proceed with the preparation of the staff report for the above-referenced applications, I would like to take this opportunity to summarize the conditions that have dictated the need to reposition this property from its current hotel use to a residential condominium use. At the heart of the need to reposition the hotel is the harsh reality of incurable functional obsolescence and a resulting decline in competitiveness.



The Woodfin Suite Hotel was designed over 20 years ago. The Woodfin Suite extended stay hotel concept is a specialized hotel product that devolved from a residential apartment design. In its formative years, some twenty years ago, the initial design was in essence a modified garden apartment format, hence the campus style clusters of two-story residential buildings serviced by a separate public/clubhouse facility. The three design elements that we cannot change, namely,

- (i) exposed, exterior corridor access to the rooms;
- (ii) spread out independent guestroom buildings separated from the main guest services (gatchouse) building; and
- (iii) two-story, walk-up, access to all of the second floor rooms,

are design features no longer desired by the customer, who now prefers the convenience, comfort and security of a connected interior corridor design.

Over the last several years the extended stay hotel design has undergone a complete paradigm shift and no major hotel company builds, or will permit its franchisees to build, this type of "garden apartment style" commercial hotel project.

Below is a summary of how these design obsolescence, and functional obsolescence, issues negatively impact the operation and competitiveness of the Sunnyvale Woodfin Suite Hotel:

- The exterior access rooms are regarded as a security risk, especially by female travelers, currently one-half or more of the customer base compared with about 20% to 25% twenty years ago. Elderly travelers and international guests also share this concern.
- In addition to security concerns, many other guests regard the two-story walk-up access as an undesirable hassle, particularly older and less ambulatory guests. Additionally, two-story walk up structures are now generally indicative of a low to mid-priced motel rather than a first class commercial hotel.
- All new first class, commercial, hotels are now constructed with interior access corridors and they are able to market this feature effectively against older exterior corridor properties, such as the Woodfin Suites.
- The cluster of several independent buildings, a central feature of the residential design of the Woodfin, is much more expensive to maintain and service than the newer more compact and efficient interior corridor design. This puts additional cost pressure on the Woodfin – we have to underbid the newer competitors to compensate for our age and the design obsolescence issues, while at the same time we must absorb the impact of higher operating costs.
- Guests who need to traverse the property to and from the clubhouse/gatehouse late in the evening perceive the campus style cluster of several independent buildings as less secure.
- Guests are far more exposed to the elements during periods of inclement weather.

In an extremely competitive business environment, such as that which we face for the foreseeable future, the incurable design obsolescence issues exacerbate the negative economics and drive the hotel into a downward spiral - and, here are some of the issues that flow directly from that:

- The hotel cannot now compete on product so it must compete on price and in doing so adds to the downward pressure on rates in the market

- The hotel alters its mix of business, overemphasizing lower rated extended stay business (over 30 days) in an effort to maintain market share at the expense of lost TOT to the city.
- TOT contribution will continue to decline, consistent with the overall declining performance of the hotel and this decline in TOT will accelerate as the hotel's reliance on lower rated business and over 30 days extended stay customers inevitably expands.
- Weak economic performance and incurable functional obsolescence preclude any significant capital reinvestment in the hotel. The physical plant declines.
- The hotel, an inherently weakened competitor, enters terminal decline.

Rather than allow this downward spiral to occur, we prefer to preempt the inevitable and implement a strategy of adaptive reuse by renovating and repositioning the property as residential townhouses and condominiums.

To the extent that there is concern of negative economic impact resulting from the conversion to residential, this may not be a material consideration for the following reasons:

- Transient Occupancy Tax (TOT) contributed by the hotel has fallen dramatically over the past five years and will continue to slide for the reasons outlined above.
- Should the Woodfin Suite Hotel be converted to condominiums/townhouses, any transient demand that the hotel might accommodate would most likely be displaced to other hotels in the Sunnyvale market, resulting in little or no loss of TOT to the city.
- The assessed value for real estate taxes in 2003 declined from \$10.84 million to \$7.46 million. This trend will continue and, going forward, the State and City will share in a declining real estate tax yield from this property. Conversely, if the hotel is renovated and repositioned as residential, the aggregate assessed value of the real estate will increase three-fold. Furthermore, the assessed value of the residential real estate, going forward, should, unlike the hotel, be increasing not declining.
- The actual net loss of TOT of this small hotel is de minimis and is more than offset by the long-term value-added created by the capital reinvestment and extended economic life given to the property.
- Withdrawing the Woodfin's rooms from the market will alleviate some of the downward pressure on hotel room rates in the Sunnyvale market and enable the remaining stronger competitors to recover more rapidly. This should in turn result in an immediate improvement in the TOT yield from

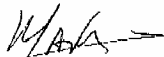
the remaining competitors -- business displaced by the absence of the under performing Woodfin rooms will be captured by the remaining competitors *at even higher rates*.

I trust that the foregoing information will further clarify the reasons for proceeding with this application and assist you in preparing the fiscal analysis component of the staff report. Please feel free to contact me if you have any questions. You may contact me directly at (858) 794-2338 or (619) 743-6408 (cell).

Steve, we do not wish to leave you with the impression that we are negative on the Sunnyvale market. On the contrary, we have enjoyed a mutually successful tenure in Sunnyvale and it is our desire to reenter this market with a new and more competitive hotel at the earliest feasible opportunity. To this end, we are currently investigating the possibility of undertaking a new Woodfin Suite Hotel development in the Town & Country or Town Center areas of the city. Our thinking that is that in the three years or so that it would take to open a new property, the market will be in better condition to absorb those new rooms.

In closing, we take this opportunity to thank the city of Sunnyvale for the accommodating host that it has been for the past 20 years. We look forward to working closely with you on the adaptive residential reuse of the existing Woodfin Suite Hotel and hopefully in the not too distant future on the development of a new and exciting, state-of-the-art, replacement hotel, as well.

Sincerely,



Mark Rousseau,
Vice President Acquisitions and Development

cc: Sam Hardage, Property Owner

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FACSIMILE COVER SHEET

DATE: June 16, 2004

TO: Steve Lynch
Associate Planner
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FAX #: 408-328-0710

FROM: Mark Rousseau
Vice President
Acquisition and Development

of Pages (Including Cover Sheet): 5
